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Updated overview of the major international economic and policy challenges for equitable and inclusive sustained economic growth and sustainable development, and of the role of the United Nations in addressing these issues in the light of the New International Economic Order

Report of the Secretary-General

Summary

Over the past few decades, the landscape of the world economy has undergone significant changes, with the share of developing countries in global output increasing steadily. However, the world economy, especially with respect to developing countries, continues to face a number of challenges for achieving equitable, inclusive and sustained growth in the aftermath of the global financial crisis, and more importantly, for ensuring global sustainable development.

Six years after the eruption of the global financial crisis, the world economy has still not fully recovered, particularly with respect to employment. International policy coordination is needed to support demand, output and jobs; mitigate negative international policy spillover effects; and push forward reforms of the international financial system.

There has been some convergence in per capita income across countries, but large inequality persists in the world along economic, social and environmental dimensions. Country-specific redistributive policies are useful instruments for reducing income inequality. It is also important from the perspective of global inequality to ensure that low-income and least developed countries benefit fully from international tax cooperation. Full employment and decent work have proved to be an effective path towards equitable and inclusive growth.

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Achieving sustainable development requires global actions to deliver on the legitimate aspiration towards further economic and social progress, robust growth and employment, and at the same time environmental protection.

The United Nations must play a central role in managing global sustainable development, reducing threats to international peace and security, and promoting human rights. The Organization has played a leading role in promoting the Millennium Development Goals and will also play a leading role in promoting the post-2015 sustainable development agenda.

I. Introduction

1. The Declaration on the Establishment of a New International Economic Order, as set out in resolution 3201 (S-VI) adopted by the General Assembly at its sixth special session in 1974, represented a call for shared and differentiated responsibility for equitable development for all. In the resolution, the Assembly called for an economic order "which shall correct inequalities and redress existing injustices, [and] make it possible to eliminate the widening gap between the developed and the developing countries, and ensure steadily accelerating economic and social development and peace and justice for present and future generations". In the Programme of Action on the Establishment of a New International Economic Order (resolution 3202 (S-VI)), the Assembly called for the sovereign equality of States, while granting preferential and non-reciprocal treatment for developing countries, and adopting special measures for the least developed countries, whenever possible.

2. The present report is submitted pursuant to General Assembly resolutions 3201 (S-VI) and 3202 (S-VI), with a view to providing an updated overview of the major international economic and policy challenges for equitable and inclusive sustained economic growth and sustainable development, and of the role of the United Nations in addressing these issues.

3. In section II, the report provides an update on the policy challenges in the international economic environment for developing countries in the aftermath of the global financial crisis. It analyses most recent global growth trends and macroeconomic policies, as well as international trade flows, commodity prices, developments in the multilateral trading system and regional trade agreements, international financial capital flows, policy measures for managing volatility in short-term capital flows, and reforms to international and domestic financial systems.

4. In section III, the report focuses on policies to promote equitable, inclusive and sustained growth. The report warns of the rising inequality worldwide and discusses various measures to reduce inequality both across and within countries. It also analyses the connection between income inequality and economic growth, and discusses policy options for reducing inequality, including redistributive measures, social protection programmes and international tax cooperation. It emphasizes the importance of employment and decent work in promoting inclusive growth.

5. Section IV of the report discusses challenges for ensuring sustainable development.

6. The report concludes with a discussion of the central role of the United Nations in managing global sustainable development for all.

II. Meeting the challenges in the international economic environment for developing countries

A. Macroeconomic policies to strengthen the recovery of output and jobs

7. Over the past few decades, developing countries have grown much faster than developed economies. As a result, the share of developing countries in global output has steadily increased, from about 29 per cent in 1990 to 48 per cent in 2013 (in purchasing power parity terms).[1] This trend has continued over the past few years, as developing countries have accounted for most of global growth since the global financial crisis of 2008-2009. From 2010 to 2012, developing countries contributed about 55 per cent to global growth, and this was even higher in 2013, partly reflecting a relatively strong growth in developing countries and also partly because of persistent weaknesses and subdued growth in developed economies.

8. Six years after the eruption of the global financial crisis, the world economy has still not fully recovered back to running at its potential capacity, particularly if measured in employment indicators as many countries still face elevated unemployment and high underemployment. Growth of world gross product averaged only 2.4 per cent in the 2011-2013 period, well below the average pace of 4 per cent recorded in the years prior to the financial crisis. According to the report of the Economic and Social Council on the world economic situation and prospects as of mid-2014 (E/2014/70), global growth is expected to strengthen to 2.8 per cent and 3.2 per cent, respectively, in 2014 and 2015.

9. Growth in the developed economies is projected to be 2 per cent and 2.4 per cent for 2014 and 2015, respectively, about one percentage point higher than in the previous two years. Nevertheless, after several years of being mired in the aftermath of the financial crisis, these projected growth rates are insufficient to recuperate the output and job losses in most of these economies. They are still confronting a number of challenges, including the remaining fragilities in the euro area, the elevated unemployment rates in some of these economies and unsustainable public finances in the longer run.

10. Most developing countries experienced a strong recovery from the initial shock of the financial crisis, but have seen their growth momentum weaken notably since mid-2011. Average growth in developing countries slowed from 7.7 per cent in 2010 to 4.6 per cent in 2013. The projected growth rates of developing countries are 4.7 per cent and 5.1 per cent for 2014 and 2015, respectively, continuing to contribute a large proportion to global growth. However, this growth trajectory is lower by two percentage points than what the developing countries had registered for a number of years prior to the global financial crisis. As demonstrated in the two recent episodes of financial turbulence in mid-2013 and early 2014, a number of developing countries are vulnerable not only to the international spillovers from the adjustments made to monetary policies by major developed countries but also to quite a few country-specific challenges, including structural imbalances,

[1] *World Economic Situation and Prospects 2014* (United Nations publication, Sales No. E.14.II.C.2); and "World economic situation and prospects as of mid-2014" (E/2014/70).

infrastructural bottlenecks, increased financial risks, incoherent macroeconomic management and political tensions.

11. Macroeconomic policies worldwide have not been strong enough to support a robust, sustained and balanced global recovery from the financial crisis. Despite the sluggish recovery, most developed economies have adopted fiscal austerity programmes in the past few years, including cuts in public spending, which to a large extent have exacerbated the difficulties in the recovery. At the same time, the central banks of developed countries have undertaken extraordinary monetary policy measures, including lowering interest rates to zero and large-scale asset purchases, or quantitative easing. The quantitative easing has indeed contributed positively to stabilizing financial markets, buttressing commercial banks and, to some extent, supporting economic recovery; however, the quantitative easing has also generated significant international spillover effects on developing countries, in terms of heightened volatility in capital flows, exchange rates, commodity prices and inflation rates for these countries.

12. Macroeconomic policies in developing countries face the challenges of strengthening domestic growth and reducing external vulnerabilities. While economic policies need to be tailored to the country-specific circumstances, most developing countries share the common needs to boost investment, particularly for infrastructure and sustainable development, and to strengthen domestic resource mobilization.

13. At the global level, the need for more effective international policy coordination has become an imperative against the backdrop of a fragile recovery of the global economy and various downside risks, such as destabilizing capital outflows and exchange rate volatility in emerging markets. In particular, supporting demand, output and jobs should remain an overarching priority for enhanced policy coordination. Greater international policy coordination is needed to mitigate negative international spillover effects from the policy adjustments in major developed countries.

B. Enhancing international trade and a trading system for development

14. Trade has been an important driver of growth in many developing countries over the past few decades. More recently, world trade has grown at a sluggish pace. This can be largely attributed to weakness in import demand in developed economies. Moderating growth in large emerging economies, including China, has also played a role, especially since mid-2011.

15. Prior to the financial crisis, world trade tended to grow at about double the rate of world output, but in the past few years trade growth has been running at about the same slow pace as growth in output. In value terms, a majority proportion of global trade still occurs between North America, Europe and East Asia, but an increasing share of world trade has also been occurring among developing countries. South-South trade has risen from about one fifth of world trade to about one quarter over the past decade, and that trend is expected to continue. As this has happened, there has been a corresponding slow shift in the components of exports of developed and developing countries, with developed countries gradually moving towards greater

services exports (to both other developed countries and developing countries) and developing countries exporting greater shares of merchandise.

16. A substantial percentage of the growth in South-South trade has been driven by trade in communications equipment, fuels and other primary commodities,[2] with the latter two components pushed up by a combination of rising prices and increased demand. The rise in trade in communications equipment has occurred as production has shifted from developed to developing countries as the latter became more integrated into global value chains. As part of this evolution, the overall rise in trade in tasks,[3] whereby countries contribute various inputs and particular production processes to global value chains, more than to final products, is expected to continue.

17. The financial crisis of 2008-2009 and the recession that followed caused extremely large fluctuations in the international prices of primary commodities, and in turn led to significant instability in the revenues of exports and Governments in many developing countries that depend largely on production and exports of primary commodities. The prices of primary commodities have tended to decrease in the past few years owing to subdued global demand but at present, most commodity prices remain at relatively high levels compared with the longer trend over decades. Meanwhile, there have been efforts across a number of developing countries to gain more of the commodity revenue, either through increasing local processing, commodity-based industrialization or by imposing higher levies on exports of raw commodities. There have also been increases in royalty rates and changes in the way commodity rents are distributed. In addition, it is necessary to develop the appropriate regulations in order to limit environmental degradation from the extractive industries and to promote sustainable and efficient use of these resources.

18. With respect to the multilateral trading system, at the ninth World Trade Organization (WTO) Ministerial Conference held in Bali in 2013, members reached agreements on trade facilitation, agriculture, a package of decisions related to the least developed countries and a monitoring system on special and differential treatment provisions. The Agreement on Trade Facilitation, for example, according to some studies, could bring about a reduction in business costs equivalent to up to 15 per cent of present costs and raise global exports by as much as $1 trillion.[4] In Africa, an analysis of comprehensive trade costs reveals that disproportionately high transaction costs may not only hamper Africa's trade with the rest of the world but may also have a negative effect on regional integration, particularly across regional economic communities.[5] The Bali agreements also reaffirmed the targets of the 2005

[2] United Nations Conference on Trade and Development (UNCTAD), "Key trends in international merchandise trade". Available from http://unctad.org/en/PublicationsLibrary/ditctab20131_en.pdf.

[3] Gene Grossman and Esteban Rossi-Hansberg, "Trade in tasks: a simple theory of offshoring". Available from www.nber.org/papers/w12721.

[4] See Organization for Economic Cooperation and Development (OECD), "The WTO Trade Facilitation Agreement: potential impact on trade costs" (Paris, 2014).

[5] Economic Commission for Africa, *Trade Facilitation from an African Perspective* (Addis Ababa, 2013); and Giovanni Valensisi, Robert Tama Lisinge and Stephen Karingi, "Towards an assessment of the dividends and economic benefits of successfully implementing trade facilitation measures at the level of the African regional economic community", paper presented at the post-Bali Trade Facilitation Symposium for African Least Developed Countries, Mwanza, United Republic of Tanzania, 14-16 May 2014.

Hong Kong Ministerial Declaration of providing duty-free and quota-free access to products exported from least developed countries, and encouraged in particular developed-country WTO members to improve existing duty-free and quota-free product and country coverage. Research suggests that achieving the Doha objective of full duty-free and quota-free coverage remains a valuable goal for least developed countries. This is because the exclusion of even a relatively small number of products has an impact in terms of the exports of least developed countries, owing to the concentration of individual least developed countries on a narrow range of products.

19. The agreements reached in Bali encompass a limited and least controversial subset of the issues of the Doha Round. WTO ministers were instructed to prepare, by December 2014, a clearly defined work programme to conclude the Doha Round. There is recognition that tough issues lie ahead, particularly concerning industrial goods, services and agriculture, which are crucial for many developing countries.

20. Efforts are needed for developed countries to eliminate all forms of agricultural export subsidies and trade-distorting domestic support. Developed countries should also increase support for capacity-building in developing countries. WTO members should strive to achieve the goals of the Bali package, particularly with respect to agriculture, in order to reach a balanced conclusion of the Doha Round.

21. With respect to regional trade agreements, some 570 notifications have been received by WTO and, of these, 379 were in force in 2013. Current regional trade agreement negotiations often involve multiple parties and/or parties accounting for major shares of world trade; they aim at high-standard integration through "WTO-plus" or "WTO-extra" provisions. Many participating developing countries see regional trade agreements as a way to lock in access to their major markets. However, it should also be noted that the proliferation of regional trade agreements has reduced transparency and uniformity in the global trading system and increased transaction and administration costs, particularly for developing-country customs authorities and firms less able to deal with multiple and complex rules of origin. While regional trade agreements enable developing countries to import international regulatory systems that are pre-tested and represent best practices, potentially limiting costs, the fact that they are often negotiated under substantive power asymmetries could lead to developing countries being pressured to adopt common rules inappropriate for their level of development and to the utilization of standards by advanced economies to close markets to poor countries.

C. Strengthening international finance for development

22. Attracting stable and long-term private investment into development-enhancing sectors, human resources and critical infrastructure sectors is of importance for developing countries to achieve the Millennium Development Goals and other development goals. A significant share of private capital flows to developing countries remains, however, short-term oriented and highly volatile.

23. In 2013, net international private flows to developing countries are estimated to have increased to $284 billion, up from $137 billion in 2012. Nonetheless, total cross-border capital flows are still significantly below the $439 billion reached in 2010. Different types of capital inflows have exhibited heterogeneous behaviour,

driven by diverse underlying forces. In 2013, net portfolio flows to developing countries underwent a sharp decline accompanied by extremely high volatility, amid shifting expectations on the tapering of the large-scale asset purchases programme by the United States Federal Reserve. There was some revival in cross-border bank lending to developing countries, although this continues to be subdued, with banks in the euro area still facing deleveraging pressures. On the other hand, foreign direct investment has remained relatively strong and stable.[6]

24. The large fluctuations in capital flows created considerable policy challenges in developing countries over the past years, often exacerbating existing macroeconomic weaknesses and constraining domestic policy space. In response, many developing countries have implemented or adjusted capital-flow management measures in a bid to stabilize macroeconomic variables. In a fundamental shift from its previous position, the International Monetary Fund (IMF) has endorsed the use of direct capital controls under specific circumstances, for example, when surging inflows threaten financial stability. While there is no conclusive evidence about the effectiveness of these measures, several recent studies suggest that capital-flow management, and especially macroprudential tools, can reduce specific measures of financial vulnerability such as bank leverage and private credit growth. Since there is no one-size-fits-all solution, the design of macroprudential policies and direct capital controls needs to take into account the specific country circumstances. In addition to managing capital flows to reduce volatility, policymakers in developing countries should also provide stronger incentives for longer-term and more stable direct investment.

25. In comparison with private capital flows, official development assistance (ODA) flows to developing countries reached a record $135 billion in 2013, after two previous consecutive years of falling volumes. The ODA level in 2013 represents 0.3 per cent of the combined Organization for Economic Cooperation and Development (OECD) Development Assistance Committee donors' gross national income, a marginal improvement in meeting the United Nations target of disbursing 0.7 per cent of donors' gross national income. Aid to least developed countries increased by 12.3 per cent in 2013 compared with the previous year. A number of concerns remain, however: aid is still heavily concentrated in the top 20 recipients; bilateral aid to sub-Saharan Africa declined in 2013; the aid portfolios for landlocked developing countries have stagnated since 2010, and those for small island developing States declined for a second straight year in 2012; and the forward spending plans of major donors do not indicate a significant growth in ODA flows in the medium term. Donor Governments should accelerate their efforts to achieve the United Nations ODA target by 2015.

26. The external debt of the developing countries declined to 22.6 per cent of their combined gross domestic product (GDP) in 2013, down more than 10 percentage points over the past decade. However, short-term debt levels and debt-servicing burdens have continued to rise, indicating a growing vulnerability in the short term while fiscal deficits have widened. Small States present significant debt sustainability challenges and require country-specific efforts to address them. In 2013, the average ratio of public debt to GDP of small States amounted to 107.7 per cent as compared with a ratio of 26.4 per cent for developing countries as a whole.

[6] See UNCTAD, *World Investment Report 2014* (United Nations publication, Sales No. E.14.II.D.1).

Debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative has alleviated debt burdens in assisted countries and has helped increase poverty-reducing expenditure. The HIPC Initiative is now drawing to a close, but several HIPC countries are once again approaching moderate or high levels of debt distress. International financial institutions should strengthen the methodology for debt sustainability analyses, taking account of the financing options available and the situations of developing countries, and assure timely and equitable debt relief for critically indebted developing countries.

27. The global financial crisis demonstrated flaws in both international and domestic financial systems. Since the crisis, regulatory reform towards a more stable financial system has been placed on national and international policy agendas (including those of the Group of 20, the Financial Stability Board and the Basel Committee on Banking Supervision). However, progress in the implementation of financial sector reforms has generally been slow. This can be attributed to several factors, such as strong resistance by the financial sector, limited national capacities and reluctance by national authorities to adopt regulations that could place domestic firms at a disadvantage. Financial reforms need to be implemented promptly and consistently, and international regulatory cooperation needs to be strengthened. Priorities should also be given to the implementation of the IMF quota and governance reforms agreed to in 2010.

28. Global imbalances, that is the current account imbalances across major economies, have continued to narrow in the past few years to the lowest level relative to world gross product in a decade and are expected to remain at a benign level in 2014 and 2015. While the United States of America remained the largest deficit economy, its external deficit is expected to be about 2.2 per cent of GDP in 2014, down significantly from the peak of 6 per cent registered in 2006. On the other hand, the aggregate external surplus of China, Japan and a group of fuel-exporting countries has narrowed accordingly. China, for instance, is expected to register a surplus of just above 2 per cent in 2014, a sharp decline from a high of 10 per cent in 2007. Japan's surplus is expected to drop to less than 1 per cent. In contrast, the surplus of the euro area as a whole has increased to about 2.9 per cent, with Germany running a surplus of 7 per cent. Large surpluses relative to GDP are still present in oil-exporting countries, at about 16 per cent in Saudi Arabia and at even higher levels in some of the other oil-exporting countries. While some of the adjustment of the imbalances in major economies reflects certain improvements in the unbalanced domestic structure of these economies, other parts of the adjustment reflect a cyclical adjustment: a weakening in external demand from the deficit countries, rather than a strengthening of external demand from the surplus countries.

III. Promoting equitable, inclusive and sustained economic growth

A. Reducing inequality

29. Reducing inequality was at the core of the call for a New International Economic Order in 1974. While there has been some convergence in per capita income across countries, large inequality persists in the world along economic,

social and environmental dimensions,[7] such as wealth, education, health, nutrition and access to energy and natural resources.

30. In the past three decades, some 73 per cent of the world population lived in a domestic context of increasing income inequality. Latin America has been the only region where a significant decline in income inequality has been identified and documented since 2000, although the region still has high income inequality.

31. High inequalities make it more difficult to sustain economic growth. Recent empirical studies by IMF show that countries with higher income inequality are more likely to experience shorter growth spells, in some cases driven by excessive debt-financed consumption and investment patterns that have contributed to financial and economic instability.[8] The concentration of income and income-generating assets has also been found to lead to suboptimal allocation of resources. It may also reflect successful rent-seeking behaviour and be associated with future social instability that deters productive investments. Furthermore, high-income inequalities are a major obstacle to poverty reduction.

32. High inequalities also hamper human and social development. Elevated income inequality generally results in suboptimal and lower public and private investments in health and education, thus weakening human capital accumulation, economic development, social cohesion and stability, and (intergenerational) mobility. High inequality also affects the subjective well-being and sense of self-worth of individuals.

33. Rising income inequality is driven by various domestic factors and broad globalization dynamics. For example, the integration of developing countries into world trade and financial markets strengthened economic growth in a way that may also have nurtured income disparities: wages failed to track rapid productivity gains in a context of growing labour market competition across countries, and income inequality also increased among workers as technological progress increased wages for high-skilled workers more than for low-skilled workers.

34. Redistributive policies are useful instruments for reducing income inequality. Redistributive policies can also be key to promoting sustainable development, for instance, through the taxation of negative externalities arising from unsustainable production and consumption patterns, or the provision of incentives for productive investment, financial stability or environmental sustainability.

35. The redistributive impact of direct taxes and transfers is significant in developed countries. In Western and Northern Europe, for instance, direct taxes and transfers alone reduce income inequality by about 15 Gini points, whereas the same measures only reduce income inequality by about 3 Gini points in developing countries. By contrast, in developing countries, the predominantly rural and informal economic structures often prevent effective tax administration.

36. Overall, weaker public revenue mobilization has put a strain on the range of social protection programmes in many developing countries. Since 2000, Latin America has experienced a progressive move towards a more rights-based approach to social spending, including social protection. This principle has shaped a number

[7] *Report on the World Social Situation 2013: Inequality Matters* (United Nations publication, Sales No. 13.IV.2).

[8] See www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf.

of new initiatives, such as a universal child allowance in Argentina, a universal old-age pension in the Plurinational State of Bolivia, and an old-age pension, and disability, sickness and maternity benefits in Brazil. In parallel, key instruments of social policy for poverty alleviation and redistribution, including conditional cash transfers, have been introduced in a number of countries. Non-contributory expenditures on social assistance in general, and on conditional cash transfers in particular, appear to have been quite effective in protecting the poorest segments of society, making the overall effects of redistributive policies more progressive. The adoption of the social protection floor initiative by the United Nations System Chief Executives Board for Coordination in 2009 has promoted the importance of strengthening social protection in developing countries.

37. The international mobility of capital flows imposes an important constraint on national redistributive mechanisms by impeding capital income taxation, limiting both public resources and the progressivity of taxation. Possible measures for dealing with this issue include reduced concessions to foreign investors; increased transparency in international financial transactions, including in relation to secrecy jurisdictions and transfer mispricing, and greater global and regional cooperation in tax matters. Ongoing international policy discourse is also considering other approaches such as unitary taxation as well as how to ensure that existing approaches are better adapted to the needs of developing countries in practice.

38. It is particularly important, from the perspective of global inequality, to ensure that low-income and least developed countries benefit fully from progress in international tax cooperation. It would also be helpful to identify additional resources to improve the administrative capacity for taxation in recipient countries. This would reduce aid dependency in developing countries.

B. Employment and decent work for inclusive growth

39. Full employment and decent work have proved to be a very important and effective path towards equitable, inclusive and sustained growth. In the aftermath of the financial crisis, the global employment situation remains challenging, as long-lasting effects from the financial crisis continue to weigh on labour markets in many countries and regions. Almost 202 million people were unemployed in 2013 around the world, an increase of almost 5 million compared with the previous year.[9] This is of particular concern considering that the responsiveness of employment to economic growth has not been strong since the early 1980s, reflecting a reduced capacity for economies to generate employment for a given level of economic growth.[10]

40. Young people bore the brunt of the effects of the weak recovery in both developing and developed countries. Half of the world's young people in the labour force are either working poor or unemployed.[11] The global youth unemployment rate has reached 13.1 per cent, approximately three times as high as the adult unemployment rate. The youth-to-adult unemployment ratio is particularly high in the Middle East and North Africa, as well as in parts of Latin America and the

[9] See International Labour Organization (ILO), *Global Employment Trends 2014. Risk of a Jobless Recovery?* (Geneva, 2014).

[10] See World Bank, *World Development Report 2013: Jobs* (Washington, D.C., 2013).

[11] See ILO, *Global Employment Trends 2014. Risk of a Jobless Recovery?*

Caribbean and Southern Europe. Meanwhile, women face unemployment rates at least double those of men in a number of countries, with a large gender inequality in wages.

41. The average length of unemployment spells has increased considerably, a further sign of weak job creation. In fact, the duration of unemployment has doubled in comparison with the pre-crisis situation. In countries where encouraging signs of an economic recovery have appeared, such as the United States, long-term unemployment still affects more than 40 per cent of all jobseekers, implying potential lasting damage to the labour market from discouraged workers who have been unemployed for significant periods of time.

42. Unemployment may only be the tip of the iceberg, especially in developing countries where vulnerable employment has long been the predominant form of employment.[12] In many countries, recent employment growth has increasingly been of a casual nature, with non-formal contracts and unsafe work conditions. Informal employment remains widespread, although regional variations are notable. In many transition and advanced economies, informal employment accounts for over 20 per cent of total employment. Although some Latin American countries have made progress in maintaining informality rates below 50 per cent, low-income Andean and Central American countries continue to experience rates of 70 per cent or more. In Asia, nearly 3 in 5 of the region's workforce (1.1 billion) remain trapped in low-quality vulnerable jobs.[13] Vulnerable employment rates are much higher in South Asia at 77 per cent, particularly for women.

43. Macroeconomic policies to support job creation have been limited and uncoordinated so far. While expansionary monetary policies in developed economies have avoided larger falls in employment, low interest rates have not been sufficient to stimulate employment creation. Moreover, higher business profits have mostly translated into higher dividends for shareholders rather than increasing productive investments and employment opportunities.

44. A number of countries are making concerted efforts at addressing labour market issues, such as aligning macroeconomic policies appropriately with domestic conditions, promoting training for youth and other excluded segments of the labour force and taking steps to induce advances in productivity and innovation. The expectation is that these measures will be enacted through a coordinated and integrated policy framework that will balance labour demand and labour supply, with sufficient efforts to build universal and sustainable systems of social protection. This also includes promoting an environment that is conducive to job creation with access to finance, necessary infrastructure and support for small and medium enterprises. Further steps to activate labour through skills training and upgrading will be necessary to integrate those groups that have been excluded or that have been forced to subsist through intermittent and vulnerable employment.

45. In some regions, there is also growing recognition that fostering inclusive and sustained growth requires stronger labour market institutions, including wage systems that ensure that wage growth is consistent with productivity growth. It is

[12] Vulnerable jobs typically entail working in informal conditions with limited legal protection and access to basic rights at work.

[13] Economic and Social Survey of Asia and the Pacific 2013 year-end update. Available from www.unescap.org/sites/default/files/yearend-update2013.pdf.

argued that higher wages and incomes facilitate growth of domestic markets and reduce reliance on low-wage manufacturing exports to drive economic growth. Many countries would also have the option of promoting employment in environment-protection activities such as land management, forest conservation, water management, clean-energy production and use; retrofitting of buildings; and recycling and waste-reduction systems.

IV. Ensuring sustainable development

46. The world is faced with challenges in all three dimensions of sustainable development — economic, social and environmental: over 1 billion people are still living in extreme poverty; inequality in these dimensions is high; and unsustainable consumption and production patterns threaten life on the planet. Achieving sustainable development requires global actions to deliver on the legitimate aspiration towards further economic and social progress, robust growth and employment and, at the same time, environmental protection.

A. Sustainable cities as the primary human living space

47. Since 2007, over half of the world's population has been living in urban areas and the figure is estimated to be approximately 66 per cent by 2050,[14] up from 10 per cent at the beginning of the twentieth century.

48. By 2050, the world urban population is projected to reach a total of 6.3 billion, concentrated in the cities of Africa and Asia. Those two continents are likely to host the majority of the additional 3 billion urbanites from 2010 to 2050. It is projected that African urban centres would house over 1 billion people by 2050, which would be about three times the figure for the urban population of North America, twice the figure for the urban population of Latin America and the Caribbean or Europe, and comparable to the figure for China's urban population at that time.

49. There is significant regional diversity in the patterns of urbanization and an even greater variation in the level and pace of urbanization of individual countries. For example, on average, more than three quarters of the Latin America and Caribbean region are highly urbanized, whereas least developed countries and landlocked developing countries are still predominantly agricultural — although their path towards urbanization is expected to accelerate in the coming decades.[15] On average, 78 per cent of the population in developed regions resides in urban centres, contrasting with an average share of urban populations in Asia and Africa of less than 50 per cent. While the urban population in some developing countries can be less than 20 per cent, in many others it can represent over 60 per cent of the total population. Moreover, urban populations in low-income nations are highly concentrated in a very small number of cities, which contrasts with the more disperse urbanization pattern in developed regions.[16]

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[14] United Nations, Department of Economic and Social Affairs, *World Urbanization Prospects: The 2014 Revision* (New York, 2014).

[15] *World Economic and Social Survey 2013: Sustainable Development Challenges* (United Nations publication, Sales No. E.13.II.C.1).

[16] United Nations, *World Urbanization Prospects: The 2014 Revision*.

50. Urbanization prospects represent a tremendous opportunity for investing in infrastructure and improving the planning, efficiency and affordability of cities, thus contributing to reduce the ecological footprint of human settlements. Developing countries should seize this opportunity and invest as early as possible in such endeavours.

51. Medium and large cities in many developing countries will continue to face challenges in meeting the needs of their urban populations, including a growing number of residents living in slums in unsafe conditions.[17] This is especially true with regard to housing, infrastructure, transportation, energy and employment, as well as for basic services such as education and health care. It will also be necessary to build resilience against the adverse impact of natural hazards. This may threaten cities' institutional capacities and efforts to achieve sustainability, highlighting the need to address financial fragility. Cities in both developed and developing countries will also need to minimize their ecological footprint by adopting more sustainable patterns of production and consumption.

52. An integrated vision encompassing the social, economic, environmental and governance components of urbanization is needed. It means harnessing the synergies and efficiencies among activities such as the production of goods, energy consumption, public transportation, biodiversity and human health. Sectoral synergies can be gained between waste and recycling management and access to water and sanitation; between air quality conservation and green public transportation; between production and distribution of renewable energy sources and green energy access, which can be complementary with the goal of reducing inequities and can improve access to education and health.[18]

53. Investment is the catalytic element behind the accomplishment of each of the components of urban sustainability. Overcoming the challenges for building sustainable cities is a major opportunity for an integrated investment in industrial transformation, improved infrastructure, social development and environmental management. Building sustainable cities requires investment in areas such as renewable energy sources; efficiency in the use of water and electricity; development of compact cities; retrofitting of buildings and an increase in green areas; fast, reliable and affordable public transportation; and improved waste and recycling systems. Cities in poor countries need resources to support green technology transfer and capacity development, and to improve access to soundly constructed housing, water and sanitation, electricity, health and education.

54. National investment strategies need to prioritize different actions depending on the level of development and the specific socioeconomic context. In many big cities of poor countries, investment in public services has been inadequate. The projected growing significance of small- and medium-size urban settlements also represents challenges for investing in sound infrastructure and reducing vulnerability to various types of risk (e.g. health, disasters). Cities in least developed countries, in particular, need resources to support the provision of decent employment to large urban populations that are underemployed and often have limited access to good housing conditions, electricity, clean water, sanitation, drainage and schools. Upper-middle- and high-income countries with urban populations that already have access

[17] United Nations Human Settlements Programme, *State of the World's Cities 2010/2011: Bridging the Urban Divide* (Nairobi, 2010).

[18] United Nations, *World Economic and Social Survey 2013*.

to basic public services face the challenges of becoming more efficient in the use of energy and water, reducing the generation of waste and improving their recycling systems.

55. Policy priorities can be determined according to cities' capacities, pressing challenges and national development strategies. For example, housing in Kampala is a priority owing to the fact that 60 per cent of its inhabitants reside in slums, while one of the priorities in Paris is to succeed in the implementation of insulation programmes for old buildings in order to improve households' energy efficiency. Similarly, the Ilo Clean Air Project in Peru is of foremost importance in a city whose mining activities have produced one of the world's highest levels of air pollution. The improvement of water infrastructure is essential to improve the quality and efficiency of water use in a big urban area such as Mexico City, while protection of groundwater for a safe drinking water supply in Freiburg and reduction of water consumption per capita in Shanghai are major priorities.

56. Investment in economic and social infrastructure in rural settlements can be a catalyst for reducing unmanageable rural-urban migration that gives rise to urban squatters and the growth of slums. Although every location has a different configuration of land use, resources and potentials, it is the systemic integration of the particular specializations and strategic locations of different villages, towns and cities that can bring sustainable development for both urban and rural areas. Empirical evidence suggests that ignition for sustained development in some South-East Asian countries in the past 50 years has included improved social development in the rural sector, increased agricultural productivity, food and nutrition security, and support for the decision-making capacities of peasants farmers.

B. Sustainable agriculture and food and nutrition security

57. Significant progress towards Millennium Development Goal 1 has been recorded, as the proportion of undernourished people — those individuals not being able to obtain enough food regularly to conduct an active and healthy life — decreased from 23.6 per cent in 1990-1992 to 14.3 per cent in 2011-2013. However, progress during the past decade was slower compared with that recorded in the 1990s. A total of 842 million people, or about one in eight people in the world, were estimated to be suffering from chronic hunger in 2011-2013. The vast majority of those people (827 million) resided in developing regions.[19]

58. Transforming the agricultural sector in a sustainable manner is crucial for ensuring food and nutrition security. Matching the growing demand for food with adequate and sustainable supply highlights the economic, technical and environmental dimensions of this challenge. Food demand is increasing in aggregate and per capita values, in parallel with population and income growth, as well as changing diets. At the same time, constraints and costs are increasing on the supply side, given land and water scarcity, climate change effects and higher energy prices.

[19] United Nations, *Millennium Development Goals Report 2014*. Available from http://mdgs.un.org/unsd/mdg/Resources/Static/Products/Progress2014/English2014.pdf.

Furthermore, about one third of the food produced is not consumed, owing to waste along the food value chain.[20]

59. Ensuring sustainable production of enough nutritious food for all thus requires raising agricultural productivity, particularly in the developing world, and the efficiency of natural resources use more generally, so as to increase production and reduce waste and environmental externalities. Promoting the introduction of advanced technologies and sustainable agronomical practices will be central to improving productivity and minimizing environmental impact, in particular in developing countries, where the agricultural sector contributes an important share of gross domestic product and where large productivity gaps still exist. Information and communications technologies, for instance, can be used to inform smallholders about new farming techniques and market prices,[21] as well as to improve livestock traceability.[22] Additional investments in research and development will be crucial in increasing productivity, but better dissemination and adaptation of existing technology in different agroecological regions will also need to be part of the solution. A broader rural development strategy is also required, including infrastructural investments to better connect producers and smallholders to output markets, which would reduce transportation, pollution and waste along the food production process.

60. As income poverty is a major factor in preventing access to food, increasing the income level of poor households will help them to obtain food that is adequate in quantity and quality, thereby reducing the prevalence of undernourishment and micronutrient deficiencies. However, high inequality in the rural sector, in particular in the distribution of assets — such as land, water, capital, education and health — is an obstacle that needs to be addressed in order to enhance food security. The underlying issue of discrimination in the rural sector, including against women, also calls for concrete action. In addition, social protection mechanisms funded through more progressive domestic revenue mobilization must also be part of a broader strategy to facilitate access of lower-income groups to food, in particular during economic shocks.

61. Tackling malnutrition in all its forms necessitates deep changes in food consumption and dietary habits. Orienting food consumption towards "sustainable diets", that is, less resource-intensive and more nutritious diets, will be crucial for the sustainability of the food system. Such changes would also improve health conditions related to low diversification of diets, including obesity. Reducing food wastage at the consumer end will also contribute significantly to the sustainability of the food system.

62. The international community can help developing countries in their efforts to design and implement policies that increase resilience to food price volatility and to climate variability. Priority actions should include reviewing trade policies to ensure that they support food and nutrition security, while establishing a transparent food market information system with timely information on regional and international

[20] Food and Agriculture Organization of the United Nations, *The State of Food Insecurity in the World 2012* (Rome, 2012).

[21] World Bank, *World Development Report 2008: Agriculture for Development* (Washington, D.C., 2007).

[22] Deloitte, "eTransform Africa: agriculture sector study: sector assessment and opportunities for ICT", 4 February 2012. Available from www.worldbank.org.

stocks. The reliability and timeliness of early warning systems need to be improved at both the national and regional levels, with a focus on countries that are particularly vulnerable to price shocks and food emergencies. The current global trading system also needs to be reformed so that the poorest can be provided with just and fair access to markets. Changing the production and consumption patterns of wealthier countries and consumers, including dietary habits, could make a remarkable contribution to ensuring food and nutrition security in the world. Publicity, advocacy, education and legislation will need to be used to reduce high levels of retail and domestic food waste in high- and upper-middle-income countries.

63. Moreover, the international community can also help developing countries in their efforts to scale up financing for investment, particularly public investment, in the agricultural sector. In many developing countries, the share of agriculture in public expenditure has to increase in order to improve the agricultural system. The public sector needs to take the lead in investing in many areas such as rural infrastructure (road, electricity and water supply), research and development,[23] and crop harvesting technologies, in order to increase agricultural productivity and reduce wastage. Scaling up investment in these agricultural public goods and services also has the potential to crowd in private investment. In addition, greater public investment in community capacity development and social infrastructure has been considered indispensable for improving the management of natural resources and the livelihoods of small-scale farms.

V. Role of the United Nations

64. The United Nations must play a central role in managing global sustainable development, reducing threats to international peace and security, and promoting human rights.

65. One crucial example in the area of development is the leading role the United Nations has played in promoting the Millennium Development Goals. Anchored on the fundamental values and principles enshrined in the Charter of the United Nations and the Millennium Declaration, the Goals represent a global resolve to spare no effort to free all women, men, girls and boys from abject poverty. Since the adoption of the Goals in 2000, Governments and other partners around the world have mobilized to tackle the many dimensions of poverty. Those efforts have generated unprecedented advances in human development. For instance, the world reached the poverty reduction target five years ahead of schedule, as the proportion of people living on less than $1.25 a day in developing regions fell from 47 per cent in 1990 to 22 per cent by 2010. Similarly, the target for safe drinking water was also met five years ahead of schedule. Major achievements of the Millennium Development Goals are also visible in primary education and in the fight against malaria and tuberculosis, together with visible improvements in all health targets. In recent years, the United Nations has also played an important role in promoting the achievement of the Goals in the areas in which there are shortfalls and uneven

[23] In developing countries, where agricultural research and development remains relatively weak, the main focus of the public research institutions should be on the adaptation of technology to particular farming conditions and agroecological settings.

progress, such as the targets related to reducing hunger, gender equality, child mortality, maternal mortality and environmental sustainability.

66. At the same time, the United Nations is leading a worldwide process in advancing the global development agenda beyond 2015. As the world has changed radically since the adoption of the Millennium Development Goals at the turn of millennium, the post-2015 era demands a new vision and a new framework for global development for all. Sustainable development, enabled by the integration of economic growth, social justice and environmental stewardship, has become the global guiding principle and operational standard.

67. The key elements of the new vision for the development agenda beyond 2015 include: universality, sustainable development, ending extreme poverty in all its forms, inclusive economic transformations, peace and governance, and a new global partnership.[24]

68. A consensus has so far been reached among Member States that the post-2015 development agenda will take root on four building blocks: a far-reaching vision with a compelling narrative, a set of concise goals and targets, a global partnership to mobilize means of implementation, and a participatory review, monitoring and accountability framework.

69. The Open Working Group on Sustainable Development Goals, established at the United Nations Conference on Sustainable Development, advanced its work on a set of concise universal goals and targets, and delivered its recommendations to the General Assembly at its sixty-eighth session for further deliberation.

70. The Intergovernmental Committee of Experts on Sustainable Development Financing, established in follow-up to the United Nations Conference on Sustainable Development, is finalizing its report proposing options for an effective and sustainable development financing strategy. An ambitious proposal will help advance the discussion on the mobilization and effective use of financial resources in the post-2015 era. The report will also serve as an important contribution to the preparatory process for the third International Conference on Financing for Development, which will be held in Addis Ababa from 13 to 16 July 2015. The Conference is expected to be a milestone in forging consensus on a renewed global partnership for development, underpinned by a holistic and comprehensive financing framework.

71. A synthesis report will take stock of the ongoing work on a post-2015 development agenda by the end of 2014. Among other inputs, it will draw on the work of the Open Working Group on Sustainable Development Goals and the Intergovernmental Committee of Experts on Sustainable Development Financing, the High-level Political Forum on Sustainable Development, the Economic and Social Council and the interactive thematic debates and high-level events organized by the President of the General Assembly to set the stage for the post-2015 era.

72. The General Assembly interactive dialogue on "Elements for a monitoring and accountability framework for the Post-2015 Development Agenda" marked an important occasion to discuss key elements of a monitoring, evaluation and

[24] See the report of the Secretary-General on "A life of dignity for all: accelerating progress towards the Millennium Development Goals and advancing the United Nations agenda beyond 2015" (A/68/202).

accountability framework for the post-2015 development agenda. The 2014 Development Cooperation Forum and its preparatory process provided guidance on possible key features of an effective and inclusive post-2015 monitoring and accountability framework for development cooperation. The 2014 meeting of the High-level Political Forum on Sustainable Development, under the auspices of the Economic and Social Council, also reflected on the review of implementation by all development actors in the context of the post-2015 development agenda.

73. The year 2014 marks the fortieth anniversary of the Declaration on the Establishment of a New International Economic Order. The aspirations set out in the Declaration remain highly relevant today in the broad context of the global sustainable development agenda beyond 2015.